



County of Los Angeles CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
Chief Administrative Officer

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First District

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Second District

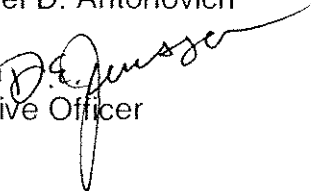
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Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

October 26, 2004

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: David E. Janssen 
Chief Administrative Officer

SACRAMENTO UPDATE

Medi-Cal Hospital Financing

As previously reported, the California Health and Human Services Agency and the California Department of Health Services have been engaged in a process, over the past several months, to change the way in which Medi-Cal supplemental hospital payments are configured. Specifically, in conjunction with a Medi-Cal Redesign effort which focuses mainly on increasing the use of managed care, the Administration has been working on a reform of the mechanics of the \$2 billion Disproportionate Share Hospital (DSH) and SB 1255 hospital payment programs to reduce and/or phase-out the use of Intergovernmental Transfers (IGTs).

In lieu of IGTs, the Administration is proposing an alternative financing model known as Certified Public Expenditures (CPEs) which would be made by county and University of California hospitals. The Administration's proposed approach contemplates a five-year 1115 Medicaid waiver which would replace the existing Selective Provider Contracting Program (SPCP) waiver, and capture county funds expended on indigent health care as CPEs to backfill IGTs currently being used to fund the non-Federal share of DSH and SB 1255 payments.

During this period, the Disproportionate Share Hospital Task Force, of which the County is a member, has conveyed numerous concerns to the Administration including whether the proposed approach addresses California's inadequate Medicaid share, the pitfalls of trading IGTs for CPEs, and whether the Administration's concept promotes safety net hospital fiscal stability. Because the Administration has provided only limited financial information thus far, it has been very difficult to determine its viability, how it impacts provider payments, and, specifically for the County, the Department of Health Services' fiscal forecast. Consequently, the DSH Task Force has been unable to provide the Administration with an endorsement of the proposed CPE approach, but remains interested in working on a model that provides stable and sufficient funding for the safety net.

In late September, the Administration met with officials from the Centers for Medicare and Medicaid Services (CMS), in Washington, D.C. to gain reaction to the CPE concept, and subsequently reported to the DSH Task Force that they felt CMS liked the Administration's proposal. The Administration also reported that they set a goal with CMS to conclude discussions in October. On October 21, 2004, because of the technical nature of the financing, and because CPEs are principally derived from counties, public hospital representatives made a request to the Administration to participate in future meetings with CMS. This request was denied by CMS, although CMS offered to meet with public hospitals at a later date.

On a related track, CMS has approved a six-month extension of the SPCP waiver from December 31, 2004 to June 30, 2005. Given that the DSH Task Force, which represents key segments of the California hospital industry, has yet to endorse the CPE approach, and in meeting with CMS technical staff last week, the Administration was asked to prepare additional materials on the cost accounting of CPEs and budget neutrality for the proposed waiver, it remains unclear whether the Administration will be able to conclude an agreement in the near term. Staff from my office and the Department of Health Services will continue to work with the California Association of Public Hospitals, and actively participate in the DSH Task Force to ensure that these critical Medi-Cal payments to the County health care system are protected.

County-Sponsored Legislation

As you know, my office has requested County Departments to review and update our State Legislative Agenda for the coming year. We anticipate bringing the Agenda, including new legislative proposals for County sponsorship, to the Board for consideration in December. In the interim, our Sacramento Advocates are working to identify authors for carry-over County-sponsored items from the last session, as well as some critical budget issues of interest to the County. Among the carry-over and budget items are clarification of documentary transfer tax, names-based HIV reporting, and full funding of the AB 3632 mandate for children's mental health services.

Each Supervisor
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We will continue to keep you advised.

DEJ:GK:
MAL:JR: ib

c: Executive Officer, Board of Supervisors
 County Counsel
 Local 660
 All Department Heads
 Legislative Strategist
 Coalition of County Unions
 California Contract Cities Association
 Independent Cities Association
 League of California Cities
 City Managers Associations
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